

May 9, 2008

MAY 20 2008

Mr. Robert Grossman  
Group Managing Director  
U. S. Public Finance  
Fitch Ratings  
33 Whitehall Street, 27<sup>th</sup> Fl.  
New York, NY 10004

Ms. Gail Sussman  
Group Managing Director  
Public Finance  
Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007

Mr. William Montrone  
Head  
U.S. Public Finance Dept  
Standard & Poor's  
55 Water Street  
New York, NY 10041


**SUBJECT:** Ending Double Standard in Ratings of Municipal and Corporate Bonds

Dear Mr. Grossman, Ms. Sussman and Mr. Montrone,

The current system of assigning credit ratings to bonds issued by governmental entities which provide essential services to the public leads to indefensible market discrimination against state and local municipal issuers. The rating agencies' own studies show that the likelihood of default by municipal borrowers is much lower than for corporate borrowers with similar ratings. Ratings should be based primarily on an evaluation of the likelihood investors will suffer a loss due to default. Unfortunately, for municipal bonds, they are not. This practice costs taxpayers enormous amounts of money that could be invested in public programs and infrastructure.

The Town Council of the Town of Yucca Valley recently adopted a resolution (copy enclosed), urging your companies to end the double standard in the treatment of municipal and corporate bonds. The Town Council urges you to treat taxpayers the same as corporations and rate municipal bonds based on the risk investor loss due to default. Finally, we urge you to do this by creating a unified, global rating approach that treats all issuers equally, thereby better serving taxpayers and investors.

Respectfully yours,

  
Andrew J. Takata  
Town Manager

cc: League of California Cities



The Town of  
**Yucca Valley**

57090 Twentynine Palms Highway • Yucca Valley, California 92284  
760/369-7207 • FAX 760/369-0626

**RESOLUTION NO. 08-16**

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF  
YUCCA VALLEY, CALIFORNIA SUPPORTING REFORM OF  
THE BOND RATING SYSTEM**

WHEREAS, the recent turmoil in the municipal bond markets has brought into focus the higher standards imposed by the three major bond rating agencies in rating municipal bonds compared to corporate bonds, mortgage-backed securities and other debt instruments; and

WHEREAS, issuers of municipal bonds rarely default on the bonds they sell to finance streets and roads, public buildings, bridges, flood protection and water systems, and other critical infrastructure, yet municipal bond ratings fail to reflect that fundamental fact; and

WHEREAS, the rating agencies even acknowledge this disparity, but they ignore it in their ratings. Standard & Poor's, for example, acknowledges that the historic rate of defaults of A-rated municipal bonds is 0.23 percent, while that of corporate bonds is 2.91 percent - or 13 times greater; and

WHEREAS, despite the relative default rates shown by their own data, the rating agencies continue to require public agencies to secure expensive bond insurance in order to secure bond ratings comparable to those of private corporations; and

WHEREAS, the rating agencies base their ratings of corporate bonds on the risk the issuer will default. Their ratings of municipal bonds, in contrast, have little relationship to the risk of default. This difference provides a substantial economic benefit at the expense of taxpayers across the nation; and

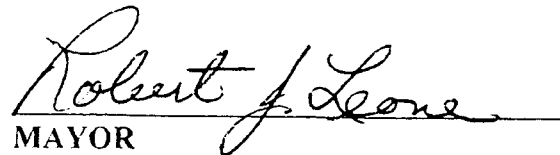
WHEREAS, the current double-standard by rating agencies: (1) drains billions of dollars from taxpayers' pockets in the form of unfairly high interest rates; (2) forces taxpayers to pay even more money to buy bond insurance – insurance they would not have to purchase if municipal bond ratings accurately reflected the slight risk of default; (3) misleads investors by grossly inflating the risk of buying municipal bonds; and (4) undermines the effective functioning of a transparent market.

NOW THEREFORE, THE TOWN COUNCIL OF THE TOWN OF YUCCA VALLEY, CALIFORNIA DOES RESOLVE AS FOLLOWS:

Section 1. The Town Council of the Town of Yucca Valley calls on the major municipal bond agencies to end the double standard in the treatment of municipal and corporate bonds; to treat taxpayers the same as corporations and rate municipal bonds based on the risk of default; and to create a unified, global rating approach that treats all issuers equally, and better serves taxpayers and investors.

Section 2. The Town Council of the Town of Yucca Valley directs the Town Manager to notify the municipal bond rating agencies by letter of the adoption of this resolution, with a copy to California State Treasurer Bill Lockyer and to register the Town as a member of the coalition of public agencies supporting the nationwide effort to reform how bond rating agencies grade state and local bonds.

APPROVED AND ADOPTED this 8<sup>th</sup> day of May, 2008.

  
MAYOR

ATTEST:

  
TOWN CLERK

STATE OF CALIFORNIA

COUNTY OF SAN BERNARDINO

TOWN OF YUCCA VALLEY

I, Janet M. Anderson, Town Clerk of the Town of Yucca Valley, California do hereby certify that Resolution No. 08-16 was duly and regularly adopted by the Town Council of the Town of Yucca Valley, California, at a meeting thereof held on the 8<sup>th</sup> day of May, 2008, by the following vote:

AYES: Council Members Herbel, Luckino, Mayes, Neeb, and Mayor Leone

NOES: None

ABSTAIN: None

ABSENT: None

  
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TOWN CLERK